



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0396	Title:	Revise school funding formula to be based on educational relevant factors
Primary Sponsor:	Laible, Rick	Status:	As Introduced

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|-----------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund (01)	(\$84,471,882)	(\$82,542,442)	(\$80,740,858)	(\$79,099,939)
Revenue:				
General Fund (01)	\$0	(\$97,569,837)	(\$98,903,999)	(\$159,155)
Net Impact-General Fund Balance	<u>\$84,471,882</u>	<u>(\$15,027,395)</u>	<u>(\$18,163,141)</u>	<u>\$78,940,784</u>

Description of fiscal impact: SB 396 creates or revises nine components to fund the basic system of free quality public elementary and secondary schools. The funding in SB 396 will decrease state support for schools by \$84.47 million in FY 2008 and \$82.54 million in FY 2009. The bill also shifts school funding costs from local taxpayers to state taxpayers through a \$250 tax credit in an amount of \$97.57 million in FY 2009.

FISCAL ANALYSIS

Assumptions:

- SB 396 is very complex and complicated with the many revisions, tax credits, etc. encompassed in the bill. Therefore, this fiscal note has been calculated at a very high level to invoke discussion. Further analysis of the bill will be necessary as the bill moves forward.
- SB 396 creates nine funding components that constitute the funding of a basic system of free quality public elementary and secondary schools as defined in 20-9-309. These components are:
 - Per-student
 - Classroom

- c. Accredited program
 - d. Building operation and maintenance
 - e. Special education
 - f. Transportation
 - g. Capital projects
 - h. Debt Service
 - i. Indian Education for All
3. Elementary districts are placed into six size groupings and high school districts are placed into five size groupings. The size grouping assigned to a district is based on the greater of the current year ANB (average number belonging) or the 3-year average ANB.
 4. Section 1 of SB 396 explains the types of expenditures that are included in each component. The types of expenditures are aligned to the chart of accounts (including expenditure programs, functions and objects) used by school districts and the Office of Public Instruction for financial reporting purposes.
 5. The per-student component is based upon a Risk Category Index defined in Section 4.
 6. The number of classrooms for the classroom component is determined by both a student-teacher ratio and a salary level assigned to each school size category. The classroom component includes funding for staff benefits including health insurance and workers' compensation. It also provides funding for paraprofessionals, professional development and substitute teachers.
 7. The accredited program component is intended to provide funding for a school district administration, school building administration, and a per-student amount for purchased services, administrative supplies, and other student and staff support functions.
 8. The per-student component, classroom component, the accredited program component, the building operation and maintenance component, special education component, and the Indian Education for All component are deposited in the district general fund.
 9. Special revenue fund type includes the retirement fund, transportation fund, tuition fund, school food services fund, impact aid fund, federal programs fund, state and private programs fund, the adult education fund, the interlocal cooperative fund, the compensated absences fund, and the nonoperating fund.
 10. The capital projects fund type includes the building fund, the building reserve fund, the bus depreciation reserve fund, the lease or rental agreement fund.
 11. The debt service fund type is for the payment of bond principal and interest.
 12. The permanent fund type is for endowments and private donations.
 13. The maximum general fund budget for a school district is up to 120% of the per-student component, classroom component, the accredited program component, the building operation and maintenance component, and the Indian Education for All component plus up to 200% of the special education allowable cost payment.
 14. The Quality BASE budget includes the per-student component, classroom component, the accredited program component, the building operation and maintenance component, and the Indian Education for All component plus up to 140% of the special education allowable cost payment. The direct state aid percentage is 44.7% and the guaranteed tax base aid area of the budget includes the remaining 35.3% of the BASE budget.
 15. Section 8 provides an individual income tax credit of \$250 for property taxes paid on the taxpayer's primary residence.
 16. Section 15 requires school districts to annually publish district data, electronically or in a local newspaper, and report to the Office of Public Instruction on a list of 14 items.
 17. Section 27 requires the Office of Public Instruction to provide to each school district an estimate of the costs of each program recommended in a student's individualized education program.
 18. SB 396 allows the trustees of a district to adopt a general fund budget up to the maximum general fund budget or the previous year's general fund budget, whichever is greater. Any increases in property taxes to support the over-quality BASE portion of the budget must be approved by the local voters.

19. At least every 3 to 5 years, an appropriate legislative committee shall review the school funding formula for equity and adequacy.
20. Average Number Belonging is redefined to be the average of the fall and spring enrollment counts, excluding the add-on for pupil instruction-related days.
21. The ANB that will be used to calculate a district's budget limitations is the greater of the current year ANB or the 3-year average ANB, whichever is greater.
22. Sections 37 and 38 redefine school isolation and nonisolated schools.
23. SB 396, Section 44, applies the annual inflation-related adjustments in 29-9-326, MCA, to all the quality BASE funding components. This provision will be effective for the development of the budget for the 2011 biennium. The projected rate of inflation for FY 2010 is 2.68% and for FY 2011 is 2.28% based on the estimates from Global Insight and applying the formula described in 20-9-326, MCA.
24. Section 47 eliminates:
 - Quality educator payment, 20-9-327, MCA
 - At risk payment, 20-9-328, MCA
 - Indian education for all payment, 20-9-329, MCA
 - American Indian Achievement Gap payment, 20-9-330, MCA
 - Litigation fund, 20-9-515, MCA
 - Technology fund, 20-9-333 through 20-9-334, MCA
 - Flexibility fund, 20-9-542 through 20-9-544, MCA
25. SB 396 repeals school district block grants established in 20-9-630, MCA. In FY 2007, school districts received \$48.81 million in school district block grants. Of this total, \$43.69 million was required to be allocated to the school district general fund. SB 396 also repeals the countywide school transportation block grants under 20-9-632, MCA. Under current law, the block grants for FY 2008 through FY 2011 are anticipated to be as follows.

Block Grants	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	\$44,019,074	\$44,353,619	\$44,690,706	\$45,030,355
Transportation	\$ 1,814,665	\$ 1,828,457	\$ 1,842,353	\$ 1,856,355
Combined	\$ 3,346,324	\$ 3,371,756	\$ 3,397,382	\$ 3,423,202
School Total	\$49,180,063	\$49,553,832	\$49,930,441	\$50,309,912
Co Transportation	\$ 1,785,691	\$ 1,799,262	\$ 1,812,936	\$ 1,826,715

26. Section 75 authorizes a school district to permissively impose previously authorized voted levies for the general fund and technology acquisition and depreciation.
27. SB 396 eliminates the quality educator payment, at risk payment, and the American Indian achievement gap payment. The Indian education for all payment is redefined.

Department of Revenue

28. This bill would provide an income tax credit of \$250 to all full- and part-year resident taxpayers and all non-resident taxpayers who own residential property in Montana (See Technical Note 3). The credit is not refundable and may not be carried forward to future tax years (See Technical Note 1). The credit would be available for tax years 2008 and 2009 (See Technical Note 4).
29. For tax year 2005, there were 620,220 full- and part-year resident taxpayers (See Technical Note 2). Not all of these taxpayers have tax liability of more than \$250. The sum of the smaller of \$250 and tax liability after other non-refundable credits for these taxpayers is \$92,417,116.
30. An unknown number of nonresident taxpayers own residential property in Montana. For tax year 2005, there were 9,320 non-resident taxpayers who took an itemized deduction for residential property taxes.

These deductions could be for property in any state or combination of states. For purposes of this fiscal note, it is assumed that 10% of these taxpayers, or 932, own residential property in Montana and all will receive the full \$250 credit. The total reduction in tax for these taxpayers if the credit had been in place in 2005 would have been \$233,000 (932 x \$250).

31. From 2005, the number of taxpayers will grow 5.31% by 2008 and 6.75% by 2009 (HJR2).
32. Credits will be \$97,569,837 for tax year 2008 ($(\$92,417,116 + \$233,000) \times 105.31\%$) and \$98,903,999 for tax year 2009 ($(\$92,417,116 + \$233,000) \times 106.75\%$). Credits will be claimed on tax returns filed in the spring of FY 2009 and FY 2010.
33. Taxpayers who take an itemized deduction for state taxes on their federal tax returns will have smaller deductions and either pay more in federal income taxes or receive smaller refunds when they file their 2009 and 2010 returns in the spring of 2010 and 2011. Of these taxpayers, ones who take an itemized deduction for federal taxes on their state returns will have larger deductions and pay less in state income tax or receive larger refunds when they file their 2010 and 2011 returns. The income tax forecasting model was modified to take this interaction into account. The change reduced tax liability by \$159,155 for tax year 2010 and by \$169,488 for tax year 2011. These reductions in liability will result in equal reductions in revenue when taxpayers file their returns in the spring of FY 2011 and FY 2012.
34. General fund revenue will be reduced by \$97,569,837 in FY 2009, by \$98,903,999 in FY 2010, and by \$159,155 in FY 2011.
35. The Department of Revenue would need two additional tax examiners to process and audit returns claiming the credit. These positions would be hired half-way through FY 2009. Personal services costs would be \$48,641 in FY 2009, \$97,285 in FY 2010 and \$99,717 in FY 2011. Setup costs for furniture and equipment would be \$11,800 in FY 2009. Operating costs would be \$5,546 in FY 2009, \$11,892 in FY 2010 and \$12,189 in FY 2011. Changes to income tax forms to accommodate this credit will be made as part of the normal annual update process with no additional costs.
36. Inflation in the 2011 biennium is assumed to be 2.5% per year from the FY 2009 amounts for personal services and operating expenses.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	2.00	2.00	2.00
<u>Expenditures:</u>				
Department of Revenue				
Personal Services		\$48,641	\$97,285	\$99,717
Operating Expenses		\$5,546	\$11,892	\$12,189
Equipment		\$11,800		
Distribution to Schools				
Direct State Aid	(\$25,496,341)	(\$24,731,451)	(\$24,068,648)	(\$23,519,883)
Guaranteed Tax Base Aid	(\$9,095,800)	(\$8,822,926)	(\$8,586,472)	(\$8,390,700)
Special Ed Component	\$1,086,013	\$2,299,042	\$3,548,462	\$4,835,364
HB 124 Block Grants to District GF	(\$44,019,074)	(\$44,353,619)	(\$44,690,706)	(\$45,030,355)
HB 124 Block Grants to District Other Funds	(\$5,160,989)	(\$5,200,213)	(\$5,239,735)	(\$5,279,557)
HB 124 Block Grants to County Transportation	(\$1,785,691)	(\$1,799,262)	(\$1,812,937)	(\$1,826,715)
TOTAL Expenditures	<u>(\$84,471,882)</u>	<u>(\$82,542,442)</u>	<u>(\$80,740,858)</u>	<u>(\$79,099,939)</u>
<u>Funding of Expenditures:</u>				
General Fund (01)-Distribution to Schools	(\$84,471,882)	(\$82,542,442)	(\$80,740,858)	(\$79,099,939)
<u>Revenues:</u>				
General Fund (01)	\$0	(\$97,569,837)	(\$98,903,999)	(\$159,155)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$84,471,882	(\$15,027,395)	(\$18,163,141)	\$78,940,784

Long-Range Impacts:**Department of Revenue**

Taxpayers who itemize deductions for state taxes on their federal returns and for federal taxes on their state returns will pay \$169,499 less in income tax in FY 2012.

Technical Notes:**Department of Revenue**

1. Section 8 provides a credit against individual income taxes. This section does not specify that the credit is refundable or that it can be carried forward to future years. This fiscal note therefore assumes that the credit is not refundable and must be used in the current tax year. If that is the intent, it would be clearer if the bill stated this explicitly.
2. Section 8 does not specify whether married couples are allowed one credit or two. Since the credit is “for property taxes paid on the taxpayer’s primary residence,” this fiscal note assumes that married couples are two taxpayers and therefore are allowed two credits.
3. Section 8 creates a credit “for property taxes paid on the taxpayer’s primary residence.” It appears that the reference to property taxes is only to provide a rationale for the credit, because property taxes plays no role in the calculation of the credit. The amount of the credit does not depend on the amount of property taxes paid. The bill defines primary residence, but the definition does not require that the taxpayer own the residence, pay the property taxes, or live in the residence for any portion of the tax year. The

definition does explicitly include a “unit of a multiple-unit dwelling,” which implies that renters would be eligible for the credit. This fiscal note therefore assumes that all full and part-year resident taxpayers and all non-resident taxpayers who own residential property in Montana are eligible for the credit.

4. Section 78 makes Section 8 apply to tax years beginning after December 31, 2007 and makes it terminate December 31, 2009. Since individual income tax payers can file on a fiscal year basis in some cases, it would be clearer to specify that the bill applies to tax years beginning after December 31, 2007 and before January 1, 2010.
5. Section 15-10-420, MCA requires the Department of Revenue to annually calculate maximum mill levies for a variety of purposes, including the statewide school equalization mill levies imposed by Sections 20-9-311 and 313, MCA. Sections 45 and 46 of this bill strike the words “Subject to 15-10-420” in both 20-9-311, MCA and 20-9-313, MCA. However, the bill does not amend 15-10-420(8), MCA, which specifies that the school equalization mills in 20-9-311 and 313, MCA are subject to annual recalculation. This fiscal note assumes that the strike-outs in Sections 45 and 46 have no effect.

Sponsor’s Initials

Date

Budget Director’s Initials

Date